



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GREENUP COUNTY SHERIFF**

Calendar Year 1997

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Robert W. Carpenter, Greenup County Judge/Executive

Honorable Keith Cooper, Greenup County Sheriff

Honorable Earl Marshall, Former Greenup County Sheriff

Members of the Greenup County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former Sheriff of Greenup County, Kentucky, for the year ended December 31, 1997. This financial statement is the responsibility of the former Greenup County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff prepared the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The former Sheriff signed the Management Representation Letter with the qualification that he did not agree with adjustments made by the auditors to the financial statement. These adjustments are explained in Note 5 of our Notes to the Financial Statement.

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Robert W. Carpenter, Greenup County Judge/Executive

Honorable Keith Cooper, Greenup County Sheriff

Honorable Earl Marshall, Former Greenup County Sheriff

Members of the Greenup County Fiscal Court

In our opinion, except that the former sheriff did not agree with the adjustments made by the auditors, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Greenup County Sheriff for the year ended December 31, 1997, in conformity with the basis of accounting described above.

Our audit was made for the purpose of forming an opinion on the financial statement taken as a whole. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discuss the following areas of noncompliance:

- Former Sheriff Earl Marshall Has A \$36,320 Deficit In His 1995 Fee Account
- Former Sheriff Earl Marshall Has A \$27,216 Deficit In His 1997 Fee Account
- Former Sheriff Earl Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account
- Former Sheriff Earl Marshall Should Have Had A Written Agreement To Protect Deposits
- Former Sheriff Earl Marshall Should Have Expended Funds Only For Official Operating Purposes

In accordance with Government Auditing Standards, we have also issued a report dated September 28, 1999, on our consideration of the former Sheriff's compliance with laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
September 28, 1999

GREENUP COUNTY
EARL MARSHALL, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1997

Receipts

Federal Grants		\$	17,107
State Fees For Services:			
Finance and Administration Cabinet			23,702
Circuit Court Clerk:			
Sheriff Security Service	\$	13,895	
Fines/Fees Collected		<u>1,220</u>	15,115
Fiscal Court:			
Church Arson Grant	\$	2,415	
Drug Grant		5,088	
FEMA Receipts		4,377	
Fireworks Permits		<u>80</u>	11,960
County Clerk - Delinquent Taxes			31,463
Commission On Taxes Collected			290,431
Bank Share Commission			19,874
Fees Collected For Services:			
Auto Inspections	\$	15,192	
Accident/Police Reports		647	
Serving Papers		17,990	
Carrying Concealed Deadly Weapon Permits		<u>11,320</u>	45,149
Other:			
KACO Lease Proceeds	\$	18,000	
Expense Reimbursement		17,886	
Advertising		498	
Sale of Equipment		4,000	
Miscellaneous		<u>2,205</u>	42,589
Interest Earned			867
Interest Earned on Tax Account			3,036

GREENUP COUNTY
 EARL MARSHALL, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1997
 (Continued)

Receipts (Continued)

Borrowed Money:

Bank Note	\$ 250,000
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Gross Receipts	\$ 751,293
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Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Gross Salaries	\$ 192,001	
Part-Time Gross Salaries	20,878	
Other Gross Salaries	21,949	
Overtime Gross Salaries	4,226	
K-9 Unit	628	\$ 239,682

Employee Benefits-

Employer's Share Social Security	20,745
Dental Insurance	1,494

Contracted Services-

Advertising	\$ 860	
Computer Services	6,290	
Dispatching - Kentucky State Police	15,000	
Professional Services-		
County Tax Settlements	19,400	
Tax Audit	2,820	
Fees Audit	165	
Consulting Services	1,590	
Accounting Services	8,550	
Electronic Data Processing System Design	160	54,835

Materials and Supplies-

Office Supplies and Materials	\$ 652	
Uniforms	6,451	
Office Expenses	13,784	20,887

GREENUP COUNTY
 EARL MARSHALL, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1997
 (Continued)

Operating Disbursements and Capital Outlay (Continued):

Auto Expense-			
Gasoline	\$	16,294	
Maintenance and Repairs		<u>15,698</u>	\$ 31,992
Other Charges-			
Taxes and Licenses	\$	42	
Deputy Insurance		850	
Postage		5,882	
Insurance		2,324	
Bonds		6,886	
Miscellaneous		3,048	
Telephone		4,843	
Radio		10,309	
Travel		6,297	
Carrying Concealed Deadly Weapon Permits		8,455	
Investment Interest Paid to Schools		886	
Bank Charges		343	
FEMA Grant Refund		<u>1,992</u>	52,157
Capital Outlay-			
Vehicles	\$	57,387	
Equipment Rental		<u>1,431</u>	58,818
Debt Service:			
Notes			<u>250,000</u>
Total Disbursements			\$ 730,610
Less: Disallowed Disbursements-			
Office Expenses	\$	217	
Advertising		<u>295</u>	<u>512</u>
Total Allowable Disbursements			<u>\$ 730,098</u>
Net Receipts			\$ 21,195
Less: Statutory Maximum			<u>47,899</u>
Excess Fees Due County for Calendar Year 1997			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statement.

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1997

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits under the respective fee official.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1997
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the former Sheriff.

Note 4. Lease - Purchase

The Sheriff's office is committed to a lease agreement with Kentucky Association of Counties Leasing Trust Program for a vehicle. The agreement requires an annual payment of \$4,443 for 5 years to be completed on February 1, 2002. The total balance of the agreement is \$18,000 as of December 31, 1997.

Note 5. Auditor's Adjustments

The former Sheriff purchased three new cruisers during calendar year 1997. Two of these purchases were not recorded on the financial statement, even though a check was written from the 1997 fee account for \$36,500 to pay for these purchases. The check was originally posted to the disbursements ledger but was adjusted off before the financial statement was prepared. The former Sheriff contends that the fiscal court directed the Sheriff's office to purchase the vehicles from future excess fees and therefore the purchases should not be included in calendar year 1997 operating disbursements. In order to show an accurate presentation of calendar year 1997 excess fees, all calendar year 1997 operating disbursements must be posted to the disbursements ledger. We could find no evidence to support the former Sheriff's contention; therefore, we have included the vehicle purchases as operating disbursements in the computation of calendar year 1997 excess fees.

GREENUP COUNTY
EARL MARSHALL, FORMER SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 1997

Assets

Cash in Bank		\$	2,360
Deposits in Transit			40,101
Receivables:			
1997 Fee Account-			
Interest Due From Tax Account	\$	3,036	
1996 Fee Account-			
Due From Fiscal Court for 1996 Excess Fee Overpayment		969	
From Tax Account for Repayment of Line of Credit		18,000	
1995 Fee Account-			
Refund Due From Fiscal Court		164	
Interest Due From Tax Account		9,635	
Commission Due From Tax Account		12,943	44,747
			<hr/>
Total Assets		\$	87,208

Liabilities

Outstanding Checks	\$	10,162	
Obligations Paid After December 31, 1997		55,801	
Total Obligations Paid After December 31, 1997			
Unpaid Obligations:			
1997 Fee Account-			
1995 Tax Overpayments Due To Tax Account	\$	9,178	
1996 Fee Account-			
Due To Tax Account-			
94 Tax Overpayments		7,626	
Commission Overpayment		28,750	
Interfund Transfers Due To Tax Account		39,227	
			<hr/>
Total Unpaid Obligations		84,781	
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Total Liabilities			150,744
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Total Fund Deficit as of December 31, 1997		\$	(63,536)
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COMMENTS AND RECOMMENDATIONS

GREENUP COUNTY
EARL MARSHALL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1997

STATE LAWS AND REGULATIONS:

1. Former Sheriff Earl Marshall Has A \$36,320 Deficit In His 1995 Fee Account

Former Sheriff Earl Marshall had a deficit of \$36,320 in his 1995 fee account. This deficit is the result of the former Sheriff receiving salary in excess of net receipts of his office. For calendar year 1995, KRS 64.527, adjusted for the consumer price index, allowed each sheriff to receive a statutory maximum salary of \$45,217. Net receipts available for Sheriff's salaries are calculated by deducting operating disbursements from operating receipts. During calendar year 1995, the former Sheriff had adjusted net receipts of \$8,897 but received the statutory maximum salary of \$45,217. Therefore, the former Sheriff received excess salary of \$36,320 from his office for calendar year 1995. Fiscal Court has the option of providing \$36,320 to pay the former Sheriff's liabilities or collect the \$36,320 from the former Sheriff.

Management's Response:

We respectfully disagree, the fiscal court has voted to exonerate any amounts owed by Earl Marshall.

Auditor's Response:

The Fiscal Court may fund the \$36,320 deficit or collect the money from former Sheriff Earl Marshall, but exoneration of this debt would not pay the existing liabilities to third parties.

2. Former Sheriff Earl Marshall Has A \$27,216 Deficit In His 1997 Fee Account

Former Sheriff Earl Marshall has a deficit of \$27,216 in his 1997 fee account. This deficit is the result of the former Sheriff receiving salary of \$26,704 in excess of net receipts of his office and disallowed expenses of \$512. For calendar year 1997, KRS 64.527, adjusted for the consumer price index, allowed each sheriff to receive a statutory maximum salary of \$47,899. Net receipts available for Sheriff's salaries are calculated by deducting operating disbursements from the operating receipts. During calendar year 1997, the former Sheriff had net receipts of \$21,195 but received a salary of \$47,899. Therefore, the former Sheriff received excess salary of \$26,704 from his office for calendar year 1997. The former Sheriff purchased from his fee account \$57,387 of county owned vehicles in 1997, which resulted in limiting funds available for his salary. This excess salary, in conjunction with the disallowed expenses, resulted in the total deficit of \$27,216. Fiscal Court has the option of providing \$26,704 to pay the former Sheriff's liabilities or collect the excess salary from the former Sheriff. We recommend the \$512 of disallowed expenses be collected from the former Sheriff.

Management's Response:

We respectfully disagree, the fiscal court has voted to exonerate any amounts owed by Earl Marshall. This is the result of purchase of police cruisers and drop in tax rates (lower revenue). Fiscal Court voted to allow purchase of autos.

GREENUP COUNTY
EARL MARSHALL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 1997
(Continued)

2. Former Sheriff Earl Marshall Has A \$27,216 Deficit In His 1997 Fee Account (Continued)

Auditor's Response:

The Fiscal Court may fund the \$26,704 deficit or collect the money from former Sheriff Earl Marshall, but exoneration of this debt would not pay the existing liabilities to third parties.

3. Former Sheriff Earl Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account

Former Sheriff Earl Marshall made numerous transfers amounting to over \$150,000 between the tax account and fee account during calendar year 1997. These transfers were not for tax commissions and are unacceptable. The tax account and fee account should remain separate at all times. Tax commissions may be used to fund fee account operations, but not the tax money. Further, the former Sheriff did not include any amount owed to the tax or fee account as a receivable or liability at the end of the year. This creates a misstatement of the actual cash balances for both funds. As of December 31, 1997, the tax account owes \$6,000 to the fee account for repayment of transfers. A lot of additional time was spent on this audit just reconstructing transfers by going through all deposit tickets and canceled checks. We recommend the Sheriff's office stop transferring tax money between the tax account and fee accounts.

Management's Response:

Okay

4. Former Sheriff Earl Marshall Should Have Had A Written Agreement To Protect Deposits

Former Sheriff Earl Marshall maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The former Sheriff had a bank balance of \$6,040,280; FDIC insurance of \$300,000; and securities pledged of \$7,450,000 as of November 10, 1997. Even though the former Sheriff obtained pledged securities of \$7,450,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff's office enter into a written agreement with the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

None

GREENUP COUNTY
EARL MARSHALL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 1997
(Continued)

5. Former Sheriff Earl Marshall Should Have Expended Funds Only For Official Operating Purposes Only

In Funk vs. Milliken, Ky., 317 S.W. 2d 299 (1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowed only if the expenditures are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses in nature. Former Sheriff Earl Marshall incurred expenditures totaling \$512 that were not for official operating purposes. These items were classified as Office Expenses and Advertising on the disbursements ledger. Expenditures included flowers, Christmas bonuses to contract labor, and local advertising not required by law. We could not determine these expenditures were necessary for the Sheriff's office. We will continue to disallow similar items in the future when expenditures are not necessary, adequately documented, reasonable in amount, beneficial to the public, or are personal expenses in nature. We recommend the former Sheriff deposit personal funds in the amount of \$512 into his 1997 Fee Account to reimburse the account for disallowed expenditures.

We note that this amount is already included in the computation of the \$27,216 deficit noted in comment 2 of the Comments and Recommendations. We also recommend the Sheriff's office expend funds for official operating purposes only and that these expenditures be necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses in nature.

Management's Response:

The Sheriff feels the expenditures should be allowed, are adequately documented, necessary, reasonable in amount and beneficial to the public.

PRIOR YEAR:

The following comments were reported in the prior year audit, have not been corrected, and are reported again in the current year:

- Former Sheriff Earl Marshall Should Eliminate The Deficit In His 1995 Fee Account
- Former Sheriff Earl Marshall Should Not Have Made Transfers Between The Tax Account And Fee Account
- Former Sheriff Earl Marshall Should Have A Written Agreement To Protect Deposits
- Former Sheriff Earl Marshall Should Have Expended Funds For Official Operating Purposes Only

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Robert W. Carpenter, Greenup County Judge/Executive
Honorable Keith Cooper, Greenup County Sheriff
Honorable Earl Marshall, Former Greenup County Sheriff
Members of the Greenup County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the former Greenup County Sheriff as of December 31, 1997, and have issued our report thereon dated September 28, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Greenup County Sheriff's financial statement as of December 31, 1997, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Comments and Recommendations.

- Former Sheriff Earl Marshall Has A \$36,320 Deficit In His 1995 Fee Account
- Former Sheriff Earl Marshall Has A \$27,216 Deficit In His 1997 Fee Account

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Greenup County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Robert W. Carpenter, Greenup County Judge/Executive
Honorable Keith Cooper, Greenup County Sheriff
Honorable Earl Marshall, Former Greenup County Sheriff
Members of the Greenup County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 28, 1999

